

*Office of the State Auditor*  
*Division of State Audit*

NORTH DAKOTA DAIRY PROMOTION  
COMMISSION  
St. Paul, Minnesota

Special Purpose Audit Report for the  
Two Year Period Ended June 30, 2008  
Client Code 603

*Robert R. Peterson*  
*State Auditor*



October 23, 2008

Honorable John Hoeven, Governor  
Members of the Legislative Assembly  
Jerry Messer, Chair  
North Dakota Dairy Promotion Commission

Transmitted herewith is the special purpose financial statement audit of the North Dakota Dairy Promotion Commission for the two year period ended June 30, 2008. The Office of the State Auditor has prepared this audit report in compliance with North Dakota Century Code section 4-24-10.

The special purpose financial statement has been prepared as required primarily to provide information to the Senate and House agriculture committees. If committee members have any questions they are encouraged to call Ron Tolstad Jr., CPA, at (701) 328-2243.

The Office of the State Auditor would like to thank the North Dakota Dairy Promotion Commission for the cooperation we received during our audit.

Sincerely,

Robert R. Peterson  
State Auditor

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**North Dakota Dairy Promotion Commission  
Bismarck, North Dakota**

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For The Two Year Period Ended June 30, 2008**

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## ***INDEPENDENT AUDITOR'S REPORT***

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Honorable John Hoeven, Governor  
Members of the Legislative Assembly  
Jerry Messer, Chair  
North Dakota Dairy Promotion Commission

We have audited the special-purpose statement of revenues and expenditures of the North Dakota Dairy Promotion Commission for the two year period ended June 30, 2008. These financial statements are the responsibility of the management of the North Dakota Dairy Promotion Commission. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, this financial statement is intended to present the revenues and expenditures of only that portion of the governmental activities of the State of North Dakota that is attributable to the transactions of the North Dakota Dairy Promotion Commission. They do not purport to, and do not, present fairly the financial position of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

The accompanying special-purpose financial statements were prepared to provide state decision makers, including the Senate and House Agriculture Committees, with a comprehensive overview of the North Dakota Dairy Promotion Commission's operations in accordance with NDCC section 4-24-10. The revenues and expenditures are reported as discussed in the first note to the financial statements. These special-purpose financial statements are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the North Dakota Dairy Promotion Commission for the two year period ended June 30, 2008, in conformity with the basis of accounting described in Note 1 to the financial statements.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The Detailed Comparative Statement of Revenues and Expenditures subsequent to the notes is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements of the North Dakota Dairy Promotion Commission. The Detailed Comparative Statement of Revenues and Expenditures has been subjected to the auditing procedures applied in the audit of the special-purpose financial statement and in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2008 on our consideration of the North Dakota Dairy Promotion Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of the Governor, North Dakota Dairy Promotion Commission, Legislative Audit and Fiscal Review Committee, the Senate and House agriculture committees and management of the North Dakota Dairy Promotion Commission and is not intended to be and should not be used by anyone other than these specified parties.

Robert R. Peterson  
State Auditor

October 23, 2008

***STATEMENT OF REVENUES AND EXPENDITURES***  
***(Budgetary Basis)***

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North Dakota Dairy Promotion Commission

	Fiscal Years	
	<u>2008-2007</u>	<u>2006-2005</u>
REVENUES:		
Assessments	\$ 860,162	\$ 890,689
Interest on Investments	12,481	4,106
Miscellaneous Revenue	50	50
Total Revenues	<u>\$ 872,693</u>	<u>\$ 894,845</u>
EXPENDITURES:		
Professional Services	\$ 878,973	\$ 802,894
Operating Expenses	6,205	5,503
Grant Expenditures	25,000	0
Total Expenditures	<u>\$ 910,178</u>	<u>\$ 808,397</u>
Revenue Over/(Under) Expenditures	<u>\$ (37,485)</u>	<u>\$ 86,448</u>

See Notes to the Special-Purpose Financial Statement.

## ***Notes to the Special-Purpose Financial Statement***

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### **North Dakota Dairy Promotion Commission**

#### **Note 1 - Summary of Significant Accounting Policies**

The responsibility for these financial statements, the internal control structure, and compliance with laws and regulations belongs to the management of the North Dakota Dairy Promotion Commission. A summary of the significant accounting policies follows:

##### **A. Reporting Entity**

For financial reporting purposes, the North Dakota Dairy Promotion Commission includes all funds, programs, and activities over which it is financially accountable. The North Dakota Dairy Promotion Commission does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Dairy Promotion Commission is part of the state of North Dakota as a reporting entity. The financial statements report all expenditure activity in the administration program.

The North Dakota Dairy Promotion Commission was established by North Dakota Century Code (NDCC), chapter 4-27, and is responsible for promoting North Dakota dairy products through coordinated research, education, public relations, advertising, and other means. The Commission helps ensure the future operations of processing plants located in North Dakota cities and towns and maintains dairy markets, particularly for the family farms. In addition, the Commission is to provide for the safekeeping of records, inspection thereof, and penalties for violation of unpaid assessment fees. The Commission receives its funding through an assessment of ten cents per hundredweight of all milk or some product there from produced in the state of North Dakota. The Commission operates on a continuing appropriation and received no funding from the state legislature.

##### **B. Reporting Structure**

The financial statements include all activities of the reporting entity as defined above. In accordance with NDCC chapter 4-27 these activities are funded on a continuing appropriation basis from a special revenue fund, (the Dairy Promotion Commission operating fund). The statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

##### **C. Basis of Accounting**

Revenues and expenditures on the statement of revenues and expenditures are principally reported on the modified accrual basis of accounting which is generally accepted accounting principles (GAAP) for governmental fund types. Because of the unique nature of North Dakota's accounting system and its appropriation laws, there are at times differences between the way expenditures are appropriated and GAAP. These differences are discussed below.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount can be determined, available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if they are collected within one year after fiscal year end. Expenditures are recorded when goods or services are received. Exceptions include: principal and interest expenditures which are recorded when due; compensated absences which are recorded when paid; and, claims and judgments.

As stated above, there can be differences between revenues and expenditures reported on the state's accounting system and budget basis and those reported by the Office of Management and Budget in the state's CAFR in accordance with GAAP. Basically there are two types of differences: accounting and statutory.

Accounting differences can include:

- A. Loan receipts and loan disbursements are accounted for as revenues and expenditures on the state's accounting system (and at times are budgeted as expenditures).
- B. Certain transfers are sometimes recorded as revenues and expenditures on the state's accounting system.
- C. Expenditures recorded on the state's accounting system do not report expenditures relating to capital lease and other financing arrangements.

Statutory differences can occur because of North Dakota Century Code section 54-44.1-11. This section requires the Office of Management and Budget to cancel most unexpended appropriations 30 days after the end of each biennial period. Certain GAAP expenditures are not recorded as budgetary expenditures because the agency does not have the ability to pay the expenditures within 30 days after the end of the biennium. These are relatively rare occurrences, and when significant, will be clearly disclosed.

#### **D. Other GAAP Reporting Differences**

GAAP financial statements would include a balance sheet by fund type and account group. Revenues, expenditures, and expenses would also be reported by fund type. In addition, a statement of cash flows would have been prepared for proprietary fund type activities. GAAP financial statements would also provide more complete note disclosures. This type of information is available in the state's comprehensive annual financial report and the Office of Management and Budget's combining statements by department.

For this report, revenues and expenditures are reported on a departmental basis to give an overview of the North Dakota Dairy Promotion Commission's operations. All revenues and expenditures are included regardless of the nature of the activities (proprietary fund types are included with governmental fund types when applicable).



## **Note 2 – Related Parties**

The North Dakota Dairy Promotion Commission contracts with the Midwest Dairy Association (MDA), a related organization through similar control and management, to implement and administer programs intended to contribute to the betterment of the North Dakota's dairy farmers and the state's dairy industry. Such programs include, but are not limited to: product advertising and promotion, nutrition programs, dairy food publicity, communications, public relations, and industry relations. Under the terms of the contract, MDA also provides the commission with administrative, financial, and reporting services. Payments under these contracts amounted to \$872,250 for the two year period ended June 30, 2008. As of June 30, 2008, the remaining balance of the 2008 contract was \$222,500.

All NDDPC board members are also members of the North Dakota Division of MDA board.

The North Dakota Dairy Promotion Commission also provided an unrestricted grant to the North Dakota State University Department of Animal and Range Sciences in the amount of \$25,000 for the partial costs associated with an in-depth marketing plan of North Dakota dairy markets and to provide seed money to leverage additional funding to further analyze the production, processing, and distribution capacity needed to enhance future dairy ventures.

A North Dakota Dairy Promotion Commission ex-officio, nonvoting board member is an associate professor and extension dairy specialist at the North Dakota State University Department of Animal and Range Sciences.

## **Note 3 - Other Significant Items**

The North Dakota Dairy Promotion Commission has cash and investment reserves of \$160,232. Based on the average monthly expenditures for fiscal year 2008, this amount represents approximately 4 months of expenditures.

In addition to the cash and investment reserves noted above, the Commission has an investment in Midwest Dairy Association (MDA, formerly American Dairy Association/Dairy Council of the Upper Midwest). Under the terms of a Dairy Research and Promotion Agreement dated July 1, 1993, the Commission provided capital of \$155,170 in the form of cash and equipment to MDA. This investment, along with investments made by the American Dairy Association of South Dakota and Minnesota Dairy Research and Promotion Council totaled \$1,500,000. These investments enabled MDA to commence operations, and provided working capital for the activities of coordinating and implementing dairy promotion, research, and education programs on behalf of dairy producers in North Dakota, Minnesota, and South Dakota.

In the event the Dairy Research and Promotion Agreement between the Commission and MDA is terminated, the Commission may receive a refund of its contributed capital. Upon termination, MDA has the right to determine the appropriate disposition of the Commission's capital contribution. However, until the capital is refunded in full, and as long as MDA exists, the Commission's contribution shall be reflected as an investment.

## ***SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE***

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### **North Dakota Dairy Promotion Commission**

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

1. *What type of opinion was issued on the financial statements?*

An unqualified (clean) opinion was given on the financial statement.

2. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

3. *Was internal control adequate and functioning effectively?*

Yes.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

There were no recommendations included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 12 of this report, along with management's response.

## **LAFRC Audit Communications**

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, and no management conflicts of interest, contingent liabilities or significant unusual transactions noted.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

There were no significant accounting estimates.

3. *Identify any significant audit adjustments.*

There were no significant audit adjustments.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

We did not have any disagreements with management that were significant to the financial statements.

5. *Identify any serious difficulties encountered in performing the audit.*

We did not experience any serious difficulties in performing the audit.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

We are not aware of any management consultations with other accountants.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are the most high-risk information technology systems critical to the operations of the state.

***Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit Of Financial Statements Performed in  
Accordance with Government Auditing Standards***

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Honorable John Hoeven, Governor  
Members of the Legislative Assembly  
Jerry Messer, Chair  
North Dakota Dairy Promotion Commission

We have audited the financial statement of the governmental activities of the North Dakota Dairy Promotion Commission as of and for the two years ended June 30, 2008 and have issued our report thereon dated October 23, 2008. Our report was modified to indicate the statement of revenue and expenses was prepared in accordance with NDCC section 4-24-10 and is not intended to be a presentation in conformity with generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the North Dakota Dairy Promotion Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Dairy Promotion Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Dairy Promotion Commission's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be a material weakness, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the North Dakota Dairy Promotion Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the North Dakota Dairy Promotion Commission in a letter dated October 23, 2008.

This report is intended solely for the information and use of the North Dakota Dairy Promotion Commission, Legislative Audit and Fiscal Review Committee, members of the North Dakota Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson  
State Auditor

October 23, 2008

## *Detailed Comparative Statement of Revenues and Expenditures*

### **North Dakota Dairy Promotion Commission**

	Fiscal Years	
	2008-2007	2006-2005
REVENUES:		
Assessments	\$ 860,162	\$ 890,689
Interest on Investments	12,481	4,106
Miscellaneous Revenue	50	50
Total Revenues	<u>\$ 872,693</u>	<u>\$ 894,845</u>
EXPENDITURES:		
Payments to MDA	\$ 872,250	\$ 797,850
Bank Fees	2,586	1,837
Legal	1,123	74
Audit	5,600	4,970
Office Supplies	0	66
Miscellaneous Contractual Fees	3,600	3,600
Data Processing	19	0
Grant Expenditures	25,000	0
Total Expenditures	<u>\$ 910,178</u>	<u>\$ 808,397</u>
Revenue Over/(Under) Expenditures	<u>\$ (37,485)</u>	<u>\$ 86,448</u>

## *Management Letter (Informal Recommendations)*

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October 23, 2008

Jerry Messer, Chair  
North Dakota Dairy Promotion Commission  
8498 52<sup>nd</sup> SW  
Richardton, ND 58652

Dear Mr. Messer:

We have performed an audit of the North Dakota Dairy Promotion Commission for the two year period ended June 30, 2008, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Dairy Promotion Commission's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

### **General**

Informal Recommendation 08-1: We recommend the North Dakota Dairy Promotion Commission obtain a working knowledge of open meeting laws and provide proper notice for all meetings.

Informal Recommendation 08-2: We recommend the North Dakota Dairy Promotion Commission seek proper legal counsel to determine whether the commission member compensation amount of \$200 received for attending meetings of the North Dakota Division of Midwest Dairy Association is a violation of North Dakota Century Code section 4-27-05(3).

Management of North Dakota Dairy Promotion Commission agreed with these recommendations.

I encourage you to call myself at 328-4785 or Ron Tolstad, audit manager, at 328-2243 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Richard Fuher, CPA  
Auditor in-charge